CLST HOLDINGS, INC.
Form PREC14A
September 11, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

x	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

CLST HOLDINGS, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
(5)	Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

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CLST HOLDINGS, INC.

formerly CellStar Corporation

17304 Preston Road, Dominion Plaza, Suite 420

Dallas, Texas 75252

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held October 27, 2009

To our stockholders:

You are cordially invited to attend our Annual Meeting of Stockholders to be held at the Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas, on October 27, 2009 at 10:00 a.m. Dallas, Texas time, for the following purposes:

a) To elect to the Board of Directors one Class I director for two years (the remaining term of the Class I Directors), and one Class II director for a term of three years, and in each case until his successor is duly elected and qualified, or until his earlier death, resignation or removal;

b) To ratify the appointment of Whitley Penn LLP as our independent registered public accountants for the year ending November 30, 2009;

c) To ratify our Amended and Restated 2008 Long Term Incentive Plan;

d) To consider and act upon five stockholder proposals, if properly presented at the Annual Meeting or any adjournment(s) or postponement(s) thereof; and

e) To transact such other business as may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

The accompanying proxy statement contains information regarding, and a more complete description of, the items of business to be considered at the meeting. The close of business on September 25, 2009 has been fixed as the record date for the determination of our stockholders entitled to receive notice of, and to vote at, the meeting or any adjournment(s) or postponement(s) thereof.

You are cordially invited and urged to attend the meeting. Whether or not you plan on attending the meeting, we ask that you sign and date the accompanying **WHITE** proxy card and return it promptly in the enclosed self-addressed envelope. If you attend the meeting, you may vote in person, if you wish, whether or not you have returned your proxy. In any event, you may revoke your proxy at any time before it is exercised.

Please note that David Sandberg, Red Oak Partners, LLC (***Red Oak Partners***), Red Oak Fund, LP (***Red Oak Fund***), Pinnacle Partners, LLC (***Pinnacle Partners***), Pinnacle Fund, LLLP (***Pinnacle Fund***) and Bear Market Opportunity Fund, L.P. (***Bear Fund,*** together with Mr. Sandberg, Red Oak Partners, Red Oak Fund, Pinnacle Partners, Pinnacle Fund and Bear Fund, the ***Red Oak Group***) has given notice of its intention to nominate its own slate of two directors for election to our Board of Directors and submit certain stockholder proposals at the upcoming Annual Meeting and may solicit proxies for the matters it intends to bring to the Annual Meeting. You may receive proxy solicitation materials from the Red Oak Group including an opposition proxy statement and proxy card. Their proposals seek to request the Board to complete the dissolution approved at the stockholder meeting held in 2007; advise the Board that the stockholders do not approve of the transaction purportedly entered into as of November 10, 2008 whereby CLST Asset I, LLC, a wholly owned indirect subsidiary of the Company, entered into a purchase agreement to acquire the outstanding equity interest in FCC Investment Trust I and request the directors to take any available and appropriate actions; disapprove the 2008 long term incentive plan adopted by the Board and request the Board not to issue any additional share grants or option grants

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under such plan and request that the directors rescind their approval of such plan; advise the Board that the stockholders disapprove of the transaction purportedly entered into as of December 12, 2008 pursuant to which CLST Asset Trust II, an indirect wholly owned subsidiary of the Company, entered into a purchase agreement to acquire certain receivables on or before February 28, 2009 and request the directors to take any available and appropriate actions; and advise the Board that the stockholders disapprove of the transaction purportedly entered into as of February 13, 2009 whereby CLST Asset III, LLC, an indirect wholly owned subsidiary of the Company, purchased certain receivables, installment contracts and related assets owned by Fair Finance Company and request the directors to take any available and appropriate actions.

The Board of Directors is deeply committed to the Company, its stockholders and enhancing stockholder value. In the Board of Director s opinion, the Red Oak Group s proposals are not in the best interests of our stockholders. The Board of Directors believes that its nominees are well-qualified to manage the Company in the stockholders best interests and believes that a vote at the Annual Meeting in favor of the election of the Board s nominees, in favor of ratification of the appointment of the Company s independent registered public accountants and in favor of ratification of the Company s Amended and Restated 2008 Long Term incentive Plan is in the best interests of our stockholders. **OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE BOARD S NOMINEES NAMED ON THE ENCLOSED WHITE PROXY CARD, FOR THE RATIFICATION OF THE APPOINTMENT OF WHITLEY PENN LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE YEAR ENDING NOVEMBER 30, 2009, FOR THE RATIFICATION OF OUR AMENDED AND RESTATED 2008 LONG TERM INCENTIVE PLAN, AND AGAINST THE RED OAK GROUP S PROPOSALS, INCLUDED AS PROPOSALS No. 4 THROUGH No. 8 IN THIS PROXY STATEMENT, AND URGES YOU NOT TO SIGN OR RETURN ANY PROXY CARD SENT TO YOU BY THE RED OAK GROUP.**

If you have previously signed a proxy card sent to you by the Red Oak Group, you can change your vote and vote for our Board of Directors nominees by using the enclosed **WHITE** proxy card to vote by signing, dating and returning the enclosed **WHITE** proxy card in the postage-paid envelope provided, or, if you hold your shares in street name (i.e., your shares are held in the name of a bank, broker or other nominee), you may vote by Internet or by telephone. Only the latest dated proxy you submit will be counted. Please note that the enclosed **WHITE** proxy card also includes the proposals that the Red Oak Group has notified us it intends to bring before the Annual Meeting. Therefore, our enclosed **WHITE** proxy card provides you with the ability to vote For or Against or Abstain from voting for or on any proposals made by the Red Oak Group, as well as to vote For our director nominees and other matters.

If you need assistance voting your shares, contact:

Morrow & Co., LLC.
470 West Avenue
Stamford, CT 06902
(800) 607-0088

By Order of our Board of Directors

Timothy S. Durham,
Secretary and Chairman

Dallas, Texas
, 2009

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held October 27, 2009:

This proxy statement and our 2008 Annual Report on Form 10-K are available at http://bnymellon.mobular.net/bnymellon/clhi.

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CLST HOLDINGS, INC.

17304 Preston Road, Dominion Plaza, Suite 420
Dallas, Texas 75252

PROXY STATEMENT

for

ANNUAL MEETING OF STOCKHOLDERS

To Be Held October 27, 2009

GENERAL INFORMATION

Our Board of Directors (sometimes referred to herein as the ***Board***) hereby solicits your proxy for use at our Annual Meeting of Stockholders to be held at Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas, on October 27, 2009 at 10:00 a.m. Dallas, Texas time, and any adjournment(s) thereof. This proxy statement, along with the accompanying notice of Annual Meeting, summarizes the purposes of the Annual Meeting and the information that you need to know to vote at the Annual Meeting. This solicitation may be made in person or by mail, telephone, telecopy or otherwise on behalf of our directors, who will receive no extra compensation for participating in this solicitation. We have hired Morrow & Co., LLC to distribute and solicit proxies, and we will pay the entire cost of this solicitation. We expect to mail this proxy statement and the enclosed form of proxy, together with our Annual Report on Form 10-K, to our stockholders on or about , 2009.

If you have previously signed a proxy card sent to you by the Red Oak Group, you can change your vote and vote for our Board of Directors nominees by using the enclosed **WHITE** proxy card to vote by signing, dating and returning the enclosed **WHITE** proxy card in the postage-paid envelope provided, or, if you hold your shares in street name (i.e., your shares are held in the name of a bank, broker or other nominee), you may vote by Internet or by telephone. Only the latest dated proxy you submit will be counted. Please note that the enclosed **WHITE** proxy card also includes the proposals that the Red Oak Group has notified us it intends to bring before the Annual Meeting. Therefore, our enclosed **WHITE** proxy card provides you with the ability to vote For or Against or Abstain from voting for any proposals made by the Red Oak Group, as well as to vote For our director nominees and other matters.

We are not responsible for the accuracy and completeness of any information provided by or relating to the Red Oak Group and its nominees for director contained in any proxy solicitation or other materials filed or disseminated by, or on behalf of, the Red Oak Group or any other proposals or statements that the Red Oak Group or its affiliates may otherwise make. The Red Oak Group chooses which stockholders receive their proxy solicitation materials. Our materials are being made available to all stockholders.

In order to obtain directions to attend the Annual Meeting of Stockholders, please call Robert Kaiser, Chief Executive Officer, at (972) 267-0500. For information on how to vote in person at the Annual Meeting of Stockholders, please see the section entitled Information Regarding the Meeting and Voting below.

Unless the context indicates otherwise, CLST , we , us , our or the Company means CLST Holdings, Inc. and all of our direct and indirect subsidiaries on a consolidated basis.

CERTAIN BACKGROUND INFORMATION

Introduction.

We believe our Board has served our stockholders well over the last few years. In 2007, after the sale of our United States and Miami-based Latin American operations (the ***U.S. Sale***), one of our directors, Mr. Durham, initiated several actions in an effort to make the Board more accountable with respect to implementing the plan of dissolution and conducting the Company s business generally, including filing a proxy statement and nominating directors. Mr. Kaiser, a current director and nominee who was also a director at that time, supported Mr. Durham s efforts and aligned himself with Mr. Durham as a director nominee. While continuing to wind-down the Company s historical business (the ***Wind Down***), our Board distributed cash dividends to stockholders totaling $2.10 per

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share, or a cumulative total distribution of $43.2 million, and has acted to minimize expenses, collect significant amounts of cash, and maximize returns on the Company s cash assets. Also, as more fully described below, our Board discovered that the Company has $125 million in net operating loss carryforwards (***NOLs***), which potentially have significant value to the Company and which the Board has sought to protect and make use of for the benefit of our stockholders. Furthermore, while conducting the Wind Down activities with minimal staff, the Company has nevertheless continued to maintain its efforts to comply with the Company s reporting requirements under the Securities Exchange Act of 1934, as amended (the ***Exchange Act***). Below is a description of some of the Board s achievements since August 2007.

Distributed Cash to Stockholders.

In furtherance of the plan of dissolution adopted by the stockholders in March 2007, on July 19, 2007 the Company paid a cash dividend of $1.50 per share to its stockholders. This was followed on November 1, 2007 by an additional $.60 per share dividend, declared by our Board, for a cumulative total distribution of $43.2 million. After carefully considering the Company s cash position and known and contingent liabilities, and upon the advice of the Company s outside counsel, the Board determined that this was the maximum amount that should be distributed before resolving more of the Company s liabilities, in order to avoid exposing its stockholders and the Board to potential personal liability. The amount and timing of any additional distributions to stockholders in connection with the liquidation and dissolution of the Company are subject to uncertainties and depend on the resolution of certain contingencies more fully described in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the ***SEC***) on March 2, 2009 and other filings with the SEC.

Collected Cash.

Our Board has worked diligently to collect amounts of cash owed to the Company during the Wind Down. On October 4, 2007, we collected $7.6 million from an escrow account related to the U.S. Sale. This collection was a critical factor in our Board s decision to make the $.60 per share distribution to stockholders on November 1, 2007. Also, in January 2008, we collected from the purchasers of those operations an additional $3.2 million in post-closing working capital adjustments and $1.4 million upon resolution in favor of the Company of indemnity claims made by the purchasers. The total post-closing amount our Board collected from the purchasers of the U.S. Sale was $12.2 million.

In addition, we have collected more than $2.5 million in cash to date during the Wind Down from other efforts, including approximately $694,000 from the purchasers of our Colombia and Peru operations related to transactions in 2002 and 2004, collected throughout 2007, 2008 and 2009; approximately $914,000 in federal income tax refunds in 2008; approximately $712,000 in insurance refunds in 2008; and approximately $216,000 in other tax refunds in 2008 and 2009.

We have also initiated arbitration proceedings to collect up to $1.7 million that we believe is owed to the Company from the 2007 sale of our Mexico operations. The arbitration is currently scheduled for October 2009.

Continued Wind Down Activities.

We are working steadily to complete a long list of actions necessary to complete the Wind Down of our historical business in an orderly fashion. Completing the Wind Down is a cumbersome task that requires many steps and may take a significant amount of time. These steps include dissolving numerous subsidiaries, resolving pending litigation and completing various regulatory filings and other requirements. We cannot predict how long, how time-consuming or how costly resolution of the litigation matters will be. To date, we have completed and filed final sales tax returns and franchise tax returns for most of our entities. We have also completed the requirements to withdraw most of our entities from doing business in multiple state jurisdictions in the U.S. Furthermore, we are continuing to dissolve our foreign and domestic subsidiaries pursuant to the plan of dissolution. However, in order to protect the Company s cash and other assets from any actual or potential liabilities of the Company s direct and indirect subsidiaries, we will not dissolve our inactive domestic, foreign subsidiaries, domestic subsidiaries with foreign subsidiaries and our other indirect foreign subsidiaries until the actual and contingent liabilities of each such subsidiary have been resolved or contingency reserves have been set aside sufficient to pay or make reasonable provision to pay all such subsidiary s claims and obligations in accordance with applicable law. In addition, in certain jurisdictions, the dissolution process is an extended one.

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We completed the dissolution of our subsidiaries in the United Kingdom and Guatemala in February 2008 and March 2009, respectively, and of CLST-NAC Fulfillment, Ltd., a Texas limited partnership and indirect subsidiary of the Company, in September 2009. Furthermore, we completed the merger of CLST Fulfillment, Inc., a Delaware corporation, into its parent, National Auto Center, Inc., a Delaware corporation and our wholly owned subsidiary, effective September 10, 2009. We also made a demand on the purchaser of our Colombian subsidiary for the documents needed to divest our remaining minority interest in that subsidiary. Further, we have submitted documents to several governmental authorities in El Salvador as required to dissolve our dormant entity in El Salvador. Finally, for our Netherlands subsidiary, we have collected VAT tax refunds and are in the process of preparing tax returns that are required to complete the dissolution process.

There are a number of actions required by governmental regulations in order to dissolve our Philippines subsidiary, and we have made substantial progress toward its dissolution. We obtained a Formal Entry of Judgment in two longstanding lawsuits. We have also obtained a determination from the Bureau of Internal Revenue that no taxes are owed on a 2004 transaction. We are now completing audits that are required to be submitted for regulatory approval prior to dissolution, and have taken various other actions required by the Bureau of Internal Revenue and the Philippines Securities and Exchange Commission.

During the Wind Down, we have continuously worked to resolve all known and contingent liabilities. We continue our efforts to resolve a $14.2 million historical liability recorded on the Company s balance sheet. It is our position that the Company may not be liable for this amount, and management is working to resolve it. Ultimately, it may be necessary to obtain a court order to resolve the uncertainties surrounding this recorded liability. The Board believes that pending a settlement with the counterparty on this liability or a court order, another distribution to stockholders would be inconsistent with its fiduciary duties.

Discovered NOLs and Protected Company Cash.

In a detailed review of the Company s financial statements and historical operations, the Board discovered that as of the end of 2008, the Company had $125 million in NOLs, which the Company could use to offset potential future income tax liability. We have experienced and continue to experience operating losses, and under the Internal Revenue Code and rules promulgated by the Internal Revenue Service, we may carry forward these losses in certain circumstances to offset any current and future earnings and thus reduce our federal income tax liability, subject to certain requirements and restrictions. As more fully described in our Annual Report on Form 10-K filed with the SEC on March 2, 2009**,** we adopted a stockholder rights plan (the ***Rights Plan***) and declared a dividend of one preferred share purchase right for each outstanding share of Common Stock of the Company to protect this asset of the Company. The dividend was paid to our stockholders of record as of February 16, 2009. Our Board adopted the Rights Plan in an effort to protect stockholder value by attempting to protect against a possible limitation on our ability to use our NOLs to reduce potential future federal income tax obligations. To the extent that the NOLs do not otherwise become limited, we believe that we will be able to carry forward a significant amount of NOLs, and therefore these NOLs could be a substantial asset to us. However, if we experience an Ownership Change, as defined in Section 382 of the Internal Revenue Code, our ability to use the NOLs will be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, which could therefore significantly impair the value of that asset. The Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of our outstanding Common Stock without our approval. Stockholders who owned 4.9% or more of our outstanding Common Stock as of the close of business on February 16, 2009 did not trigger the Rights Plan and will not so long as they do not (i) acquire any additional shares of Common Stock or (ii) fall under 4.9% ownership of Common Stock and then re-acquire 4.9% or more of the Common Stock. Thus, unless the Red Oak Group acquires the beneficial ownership of additional shares, their position as a stockholder holding more than 4.9% will not trigger the Rights Plan. If an Ownership Change had occurred as a result of the Red Oak Group tender offer, then our NOLs would be impaired. For example, if the $14.2 million historical liability mentioned above was resolved in our favor, we believe we could use the NOLs to offset approximately $4.8 million in tax liability that would result from the forgiveness of debt. If we had not put in place the Rights Plan, the NOLs could have been impaired, which would have cost the Company significant tax liability upon the resolution of this historical liability.

The Board acted decisively to protect and grow the Company s cash assets during the U.S. banking crisis in 2008, first by timely moving the Company s cash to fully insured financial instruments, and second by acquiring portfolios of receivables. The financial instruments earned minimal interest and generated very low rates of return. In light of the significant value of our NOLs and the extended timeframe that may be required to complete the

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dissolution of the Company, the Board sought out strategic alternatives for the use of the Company s cash that could earn higher returns than demand deposits or bank instruments.

Acting on the opportunity to offset income against the NOLs, from November 2008 through February 2009, our Board authorized three transactions to purchase portfolios of receivables with an aggregate outstanding principal balance as of May 31, 2009 of $48.5 million. The income from the portfolios can be offset against our NOLs, which results in tax-free income to the Company. In two of these transactions, the Company was able to minimize and leverage the amount of cash needed to acquire the portfolio assets through credit facilities that provide non-recourse borrowings, thus protecting the Company s remaining cash and other assets. In the third investment, the Company was able to leverage its invested funds by negotiating seller financing equal to approximately 24% of the purchase price of the assets acquired.

The Board believed that each of these acquisitions would be a better investment return for the Company s stockholders and better preserve the value of the Company s assets when compared to the Company s cash investments as a result of recent changes to interest rates and other investment alternatives. Given the time necessary to complete the governmental and other requirements for dissolution, we are engaging in the business of holding and collecting the receivables with the intention of generating a higher rate of return on our assets than we have received and are currently receiving on our cash and cash equivalent balances.

Complied with SEC Reporting and Minimized Expenses.

Our Board has continued to maintain its efforts to comply with the Company s reporting requirements under the Exchange Act. Compliance with the reporting requirements, which requires substantial amounts of time and effort, was achieved with minimal staff, comprised of only two full-time employees and one part-time employee.

Maintained Stockholder Liquidity.

When a company files a certificate of dissolution, Delaware law requires that it stock transfer books be closed, meaning that stockholders may no longer sell their shares. Filing a certificate of dissolution early in the dissolution process may result in stockholders having an investment that they cannot easily sell or value for a longer time than would be the case if the certificate of dissolution is filed later in the winding up process. Our Board has not filed a certificate of dissolution for several reasons, including its desire to maintain our stockholders ability to sell and value their investment for as long as possible under the circumstances.

Limited Expenses.

Our Board has also acted prudently to minimize expenses during the Wind Down. In addition to other actions, the Company realized significant savings by the reduction of Mr. Kaiser s annual compensation, as an executive officer, to 30% of the amount of his previous annual compensation prior to the U.S. Sale. Also, our management negotiated a favorable lease for office space and moved the Company s offices out of an expensive temporary suite arrangement to its current office. The Company now conducts its operations with only two full-time employees, including Mr. Kaiser, and one part-time employee.

Qualifications of Current Board and Nominees.

We believe our nominees, Mr. Kaiser, a current director, and Patrick O Donnell, are well-suited by qualification and experience to serve on our Board for each nominee s term and that their election will assist our Board in managing the Company in the best interests of the stockholders. Our directors, including our nominees, have over 50 years combined experience in managing public companies. In contrast, the Red Oak Group s nominees, David Sandberg and Charles Bernard, have little or no experiences in managing public companies. Mr. Sandberg has only recently joined the boards of three public companies in April, June and August 2009. We have no information to suggest that Mr. Bernard has experience serving as an officer or director of a public company. As described below under Red Oak Group Litigation, we have filed suit against the Red Oak Group, which includes Mr. Sandberg, Pinnacle Partners, Pinnacle Fund and other entities, for various securities

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violations. Mr. Bernard is the Manager of White Peaks Holdings LLC, which is a manager of Pinnacle Partners, the general partner of Pinnacle Fund. Also, White Peaks Holdings LLC is a manager of Pinnacle Capital, LLC, the investment advisor of Pinnacle Fund. Based on the alleged securities violations with respect to our Company and the lack of public company experience, we do not believe the Red Oak Group nominees are qualified to lead the Company.

Intentions of the Red Oak Group.

As further described below under Litigation with the Red Oak Group , the Red Oak Group has stated that it intends to nominate and seek to elect its own slate of two directors, David Sandberg and Charles Bernard, to our Board of Directors and submit certain stockholder proposals at the upcoming Annual Meeting and may solicit proxies for the matters it intends to bring to the Annual Meeting. The Red Oak Group beneficially owned 4,561,554 shares of our common stock as of February 13, 2009, according to the Red Oak Group s Schedule 13D filed with the SEC, representing approximately 19.05% of our outstanding common stock as of the record date.

At the date of this proxy statement, the Red Oak Group has indicated that it intends to solicit proxies from stockholders for the election of its proposed nominees. If the Red Oak Group proceeds to solicit proxies, the Board recommends that you do **NOT** return any proxy card delivered by the Red Oak Group or otherwise vote as recommended by the Red Oak Group.

Based on information in the Red Oak Group s securities filings, the Board believes that the Red Oak Group s true intention is to gain control of the Company for its own profit, and that actions it has taken toward that objective have been in violation of federal securities laws.

If the Red Oak Group s true intention is in fact to gain control of the Company for its own profit, then the Board believes that the Red Oak Group has violated federal securities laws by failing to disclose such intention in its Schedule 13D filings. The Red Oak Group has failed to appropriately disclose its intentions for the Company in the event its nominees are elected to the Board or it otherwise obtains control of the Company. The Board believes that the Red Oak Group s approach is to obtain voting control through the acquisition of a significant amount of the Company s shares in the secondary market and privately negotiated transactions, without disclosing to other stockholders that they are acquiring the shares in order to obtain voting control and without disclosing their plans for the Company if they obtain control.

The Board believes that the Red Oak Group nominees for director, David Sandberg and Charles Bernard, have no significant experience with publicly held companies and no knowledge or expertise that would qualify them to manage the affairs of the Company. For the past several years, David Sandberg has managed and owned interests in portfolio management and hedge fund companies. According to public filings, Mr. Sandberg has served as a director of one public company since April 2009, as director of another public company since June 1, 2009, and was recently elected to serve as a director of Forgent Networks, Inc. d/b/a Asure Software on August 28, 2009. We have not received from the Red Oak Group any information to suggest that Charles Bernard has experience serving as an officer or director of a public company.

If any or all of the Red Oak Group s nominees are elected to our Board at the Annual Meeting, there can be no guaranty that our professional advisors, such as our outside counsel or our independent registered public accountants, nor our CEO, Mr. Kaiser, would remain with the Company to continue to lead the dissolution process and the management of the portfolios. These persons have at least two years of experience (and in Mr. Kaiser s case, over seven years of experience) in working with the Company, and thus have a valuable knowledge of the Company and its history. Our current Board knows and understands first-hand how challenging it can be to manage a company after a change in board

members and the loss of outside counsel, independent registered public accountants and executive officers. However, our current Board had the benefit of Mr. Kaiser s knowledge and years of experience with the Company following the 2007 proxy contest. If the Red Oak Group s nominees win the upcoming election, they may seek to have the Company hire other professionals and executive officers and thus not have the benefit of working with professionals who have a history with and in-depth understanding of the Company.

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Litigation with the Red Oak Group.

The following is a discussion of certain events relating to the Red Oak Group that have occurred through the date of this proxy statement.

In December 2008, the Red Oak Group approached our Board of Directors about its interest in making a minority investment in the Company and obtaining control of the Company. Our Board responded by suggesting that the Red Oak Group and the Company discuss the Red Oak Group s desire to make a minority investment and obtain control until after the Company had filed its annual report with the SEC and made its results of operations available to its stockholders. On January 15, 2009, the Red Oak Group acquired 5,000 shares of our common stock in secondary market and privately negotiated transactions. On or about January 30, 2009, the Red Oak Group requested that the Company provide a stockholder list and security position listings which it said it would use to make a tender offer. On February 3, 2009, the Red Oak Group announced its plan to commence a tender offer to acquire up to 70% of our outstanding shares of our common stock at $0.25 per share. On February 5, 2009, we adopted a stockholder rights plan which became effective on February 16, 2009. Stating as its reason the Company s Rights Plan, the Red Oak Group announced on February 9, 2009 that it had abandoned its intention to make a tender offer. Nevertheless, the Red Oak Group continued to acquire shares of our common stock in the secondary market and privately negotiated transactions resulting in its beneficial ownership of 4,561,554 shares of our common stock as of February 13, 2009, according to the Red Oak Group s Schedule 13D filed with the SEC, representing approximately 19.05% of our outstanding common stock as of the record date. The Red Oak Group made its purchases of our Common Stock in open market and privately negotiated transactions, and not by means of tender offer materials filed with the SEC. The Board believes that by doing so, the Red Oak Group unlawfully deprived our stockholders of the benefits of federal law regulating tender offers. Among the consequences of this course of action is that the Company and third parties were unable to make competing, superior proposals to stockholders, and stockholders were deprived of the information that complying with federal tender offer rules requires they receive.

On February 13, 2009, we filed a lawsuit in the United States District Court for the Northern District of Texas against Red Oak Fund, L.P., Red Oak Partners, LLC, and David Sandberg (the ***Federal Court Action***). Our Original Complaint and Application for Injunctive Relief alleges that Red Oak Fund, L.P., Red Oak Partners, LLC, and David Sandberg have engaged in numerous violations of federal securities laws in making purchases of our common stock and sought to enjoin any future unlawful purchases of our stock by them, their agents, and persons or entities acting in concert with them. We believe the Red Oak Group violated federal securities laws as follows:

(i) violating Rule 14(e)-5 of the Exchange Act by not truly abandoning its tender offer and instead directly or indirectly purchasing or arranging to purchase shares not in connection with its tender offer and without complying with the procedural, disclosure and anti-fraud requirements applicable to tender offers regulated under Section 14 of the Exchange Act;

(ii) violating Exchange Act Rule 14d-5(f) by failing to return the Company s stockholder list, which we provided to Red Oak upon its request, and by using such list for a purpose other than in connection with the dissemination of tender offer materials in connection with its tender offer;

(iii) violating Exchange Act Rule 14(d)-10 by purchasing shares pursuant to its tender offer at varying prices rather than paying consideration for securities tendered in the tender offer at the highest consideration paid to any stockholder for securities tendered; and

(iv) violating Section 13(d) of the Exchange Act by not timely filing a Schedule 13D and disclosing the information required therein.

On March 2, 2009, certain members of the Red Oak Group and Jeffrey S. Jones (***Jones***) filed a derivative lawsuit against Robert A. Kaiser, Timothy S. Durham and David Tornek in the 134th District Court of Dallas County, Texas (the ***State Court Action***). The petition alleges that Messrs. Kaiser, Durham, and Tornek entered into self-dealing transactions at the expense of the Company and its stockholders and violated their fiduciary duties of loyalty, independence, due care, good faith, and fair dealing. The petition asks the Court to order, among other things, a rescission of the alleged self-interested transactions by Messrs. Kaiser, Durham, and Tornek; an award of compensatory and punitive damages; the removal of Messrs. Kaiser, Durham and Tornek from the Board; and that